

Message From the Chief Financial Officer

The Department of Education continued its high standard of financial management and reporting during FY 2010. The Department's excellence in financial management has been a joint effort of its managers, employees, and business partners. In FY 2010, we:

- Strengthened management's controls over cash management activities and non-routine grant accrual procedures related to the *Recovery Act* funding, resulting in the removal of a deficiency noted in last year's "Report on Internal Controls;"
- Continued to implement financial reporting requirements for the *Recovery Act*. The Department prepares detailed *Recovery Act*-related financial information that is submitted and posted to Recovery.gov on a weekly basis;
- Continued to implement initiatives to ensure accessibility of federal student loans to eligible students and parents;
- Received an unqualified opinion on the principal financial statements for the ninth consecutive year, continuing a clear pattern of financial accountability;
- Continued to have no material weaknesses identified by our auditors as part of our Report on Internal Control; and
- Continued to provide reasonable assurance of the effectiveness of the Department's internal controls.



In FY 2010, the Department also took steps to address the two remaining significant deficiencies identified in the "Report on Internal Controls" for FY 2009: credit reform and information systems.

Regarding credit reform, the Department improved its communication with both internal and external partners—re-instituting formal credit reform work group meetings among senior managers, as well as holding monthly student loan meetings with OMB. Additionally, the Department undertook a significant review and documentation effort of the assumptions used in the Student Loan Model and also enhanced the cohort analysis.

Steps on information systems included continued efforts to address security and control weaknesses identified in audit reports and internal assessments. The Department is working internally and partnering with other government agencies to address identified security challenges. Internally, the Department has revised employee procedures for identifying and addressing vulnerabilities and has adopted Federal Student Aid's Operational Vulnerability Management System as the departmental standard for collection of information on all systems. The Department has partnered with the Federal Aviation Administration on system certifications and security management, participated in Department of Homeland Security's Einstein program, and implemented security configurations for servers in accordance with National Institute of Standards and Technology guidelines.

During FY 2010, the Department also assessed the effectiveness of its internal controls over financial reporting. This review was based on the requirements of OMB Circular A-123

(Appendix A), *Management's Responsibility for Internal Control*. We are pleased to report that the Department can give an unqualified statement of assurance on its internal control over financial reporting. This examination provided a valuable opportunity to review and improve internal controls and ensure integrity in financial management and reporting.

/s/

Thomas P. Skelly
Delegated to perform the functions and duties of Chief Financial Officer
November 15, 2010